Exhibit 13:

Previously filed under seal as Ex. 12 to N. Sugnet Declaration (Docket No. 129)

From: Neuberger, Andrew (FID) <Andrew.Neuberger@morganstanley.com>
Sent: Monday, November 08, 2004 5:42 PM
To: Phillips, Craig (FID)
Subject: FW: Updated New Century Presentation - Version 2
Attachments: NC Home Equity Presentation - Nov 2004 v2-2010624-198228855.ppt

Here is the final presentation.

Andy

From: Feeney, Ryan (FID)
Sent: Thursday, November 04, 2004 7:33 PM
To: Tufariello, Anthony (FID)
Cc: Shapiro, Steven (FID); Neuberger, Andrew (FID); Marschoun, Michael (FID)
Subject: Updated New Century Presentation - Version 2

All -

Attached please find the New Century presentation with all pages updated. Please let us know if you have any comments on the presentation.

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EXHIBIT
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5-28-14

New Century

Discussion Materials

November 2004

Morgan Stanley

New Century

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MorganStanley

New Century

Section 1

Executive Summary

Executive Summary

- This presentation analyzes the points made in the Barron's article titled, "No Margin of Safety: Sub-prime lender New Century faces stiffer competition, risk of housing bubble," published on October 11, 2004
- The article mainly describes the issues that an equity holder of New Century stock needs to analyze before making their investment decision, but does not make any points that are not already fully incorporated in the fixed income markets for both whole loans and securities
- The points raised are not New Century specific, but are risk factors that every equity investor in the stocks of mortgage companies (i.e. Countrywide), banks (Washington Mutual), or specialty finance companies (New Century) needs to be aware of
- In the following pages, we will analyze the article as well as go over the performance of the transactions that we have issued backed by New Century collateral dating back to 2001

Section 2

Response to Barron's Article on NCFC

Analysis of Barron's Article

- The first risk factor the article highlights is the 1998 liquidity crisis. There are fundamental differences in the industry today that mitigate the risk associated with such an occurrence

Summary of Market in 1998

- A significant number of firms entered the subprime lending business in the 1990's, driven by the ability to generate high profits through gain on sale accounting
- To inflate profits, lenders increased loan volume via lax underwriting and brokers churning loans
- The result was high losses and high prepayment speeds negatively affecting residuals booked from gain on sale accounting. Investors in the secondary market noticed these trends and stopped investing in the riskier tranches, causing MBS prices to drop dramatically in 1998
- Simultaneously, warehouse lenders began pulling lines and initiating significant margin calls. Subprime lenders could not meet the margin calls due to a cash negative business model, which did not allow them to retain cash to meet liquidity needs

Summary of Market since 1998 – today

- Since 1998 there has been a change in the business model eliminating the use of gain on sale accounting
- The change to whole loan sales strategy has generated cash earnings and strengthened the cash position of originators
- Since this whole loan sale strategy subjected sellers to a 100% 3rd party due diligence by each whole loan purchaser, it forced whole loan sellers to improve both the quality and consistency of their originations
- As the market has grown, lenders have chosen to originate at much tighter standards as evidenced by higher FICO scores and a decrease in low credit grades
- As a result of the changes above and the performance of the sector, the whole loan and securitization market has become incredibly liquid, with a much deeper investor base than in the late 1990s.
- On a typical whole loan package there are 8 – 10 bidders, with some packages having up to 15 bidders. Bidders consist of Wall Street firms, Banks, Mortgage Conduits and Mortgage Companies as well as hedge funds and end investors.
- Additionally, the securitization market has been extremely liquid with spreads currently at the tights of the year even after record issuance of approximately $450 billion.

Analysis of Barron's Article

Cont.

Residuals

- In today's market, residuals have more liquidity than at any other time in the history of the home equity market. There are many drivers of this liquidity including:
  - Structure of transactions
  - Quality of loans
  - Historical performance
  - Return on investment
- In 1998, the residuals that were created did not cash flow until certain structural triggers were met. Since the loans originated at this time did not perform well, many times the cashflows of these residuals were very back loaded, if they occurred at all
- The structure of deals today allows the residual to cash flow from day 1, and also make the residual cash flow a more desirable cash flow that many of the rated bonds above it due to the unique cash flow waterfall used in home equity transactions

Developing accounting scandals at FNMA and the impact on the residential mortgage industry

- FNMA problems centered on:
  - Deferral of expenses to meet bonuses
  - Cookie jar reserving to smooth earnings
  - Non-GAAP compliance with derivative accounting
- It appears that the issues at FNMA are specific to the company itself and its "culture" to smooth earnings

New Century

Response to Barron's Article on NCFC

Analysis of Barron's Article

Cont.

- The risk associated with poor loan underwriting has been mitigated by improvements brought on by the increased use of whole loan sales as an exit strategy

Poor loan underwriting (Money Store investment by First Union)

- Example provided was a very high risk 125% LTV – essentially partially unsecured – which is different from NCFC's product
  - Underwriting has dramatically improved since the liquidity crisis of 1998 as many originators were forced to turn to the whole loan market to sell their product
  - Since the whole loan market often requires 100% due diligence on all of the loans they purchase, it forced originators to improve on:
    - The quality of the underwriting
    - The consistency of the underwriting
    - The quality of the appraisals
- Morgan Stanley has purchased over $30 Bn of whole loan product from New Century and has had teams of due diligence professionals (both Morgan Stanley personnel and third party) in New Century's offices almost every month for the last 4 years performing loan level due diligence
  - Morgan Stanley has performed 100% appraisal review and 25 -35% credit / compliance review (on a mostly adverse sample basis) and has had a consistent pull through rate of between 94-95%
  - Because Morgan Stanley is such a large purchaser of loans from New Century, New Century has incorporated many of Morgan Stanley's best practices into their origination practices, including our valuation / appraisal practices, which has lead to greater consistency of product and a higher quality product vs. New Century's peer group
  - As a result, the performance of the Morgan Stanley transactions with New Century collateral are among the best in the industry

New Century

Response to Barron's Article on NCFC

Analysis of Barron's Article

Cont.

REIT conversion and incurring more credit risk by holding rather than selling loans

- With the REIT structure, the company will be only holding 20% of loans on balance sheet, which will generate credit risk
- The remaining 80% of loans will be sold for cash to Wall Street, mortgage conduits and portfolio buyers
  - Credit risk from whole loan sales is passed on to the investor
- New Century already had a strategy of putting on balance sheet 20% of their originations. The REIT structure was just a more tax efficient way of executing this strategy

Recent product origination with 85% LTV and risk of cushion deflating if housing bubble pops

- MS has purchased over 50% of production YTD and has seen a CLTV of under 80% (the norm)
- The average home value in a sub prime pool is under $200,000
  - These homes typically don't experience a significant deterioration in housing value (unlike luxury homes)
- Some of the higher LTV buckets have increased in size but this is due to product expansion into the Alt A market
  - Greater percentage of purchase mortgages (higher quality borrowers)
  - FICO scores that have increased from 580 several years ago to 630 at 6/30/04
- Also, New Century's appraisal process is among the best in the industry
  - Morgan Stanley performs 100% review of all appraisals for all of our whole loan purchases and the appraisal quality has remained very consistent

Analysis of Barron's Article

Cont.

Decline in profitability due to squeezing of net margin (sale price – cost to originate)

- Increased competition may have reduced margins, but moving to a mix of on balance sheet securitizations that generate net interest income should provide more stable revenue
- The decrease in net margin is based on outsized profits earned by originators during the 2001-2003 time period
  - During this time period margins of 2.5 – 3.5 points was not uncommon as competition in the sector was limited
  - Current margins of 1.0 – 1.5 points are more realistic and reflect a strategy of increased volume at a lower margin

40% of loan originations in CA

- The entire U.S. mortgage market is 40% California
- While we have seen this concentration of originations in CA, real estate values probably won't drop as much as these homes are considered in the moderate housing price range
  - They tend to not move as much in value as higher priced, luxury homes
- As the article states, the median priced home in California is $463,540, but his is not the target market of New Century – average home value in New Century pool / subprime pool for California is only $246,000

Sustained rise in rates could choke off mortgage production for New Century

- Sub prime borrowers are less susceptible to a rise in rates than a conforming borrower
  - They will seek debt consolidation when needed
- Additionally, a break even production analysis at 6/30/04 on New Century demonstrates that the company can withstand a 68% decline in loan production and still meet its ongoing fixed costs

Analysis of Barron's Article

Cont.

Rising rates and impact on net interest income

- To protect its margin, the company hedges with LIBOR caps

Competition from prime lenders

- The competitors mentioned have always been competitors of New Century
- Ameriquest and New Century have taken market share from large banks in the past 1 ½ years
  - Countrywide has increased their focus in the sector recently and has begun the increase their market share. Wells Fargo and other banks have continued to lose market share to New Century and Ameriquest
- Mid sized banks won't enter this market due to high capital charges and intense scrutiny from regulators

Dependence on health and liquidity of financial markets to survive

- This industry does rely on liquidity from the securitization market to keep it going
- This is why the industry as a whole is non-investment grade

Response to Barron's Article on NCFC

Fixed Income Reaction to Barron's Article

- **Experienced ABS investors have not shown a great deal of concern over the contents of the Barron's article**

Morgan Stanley hosted a breakfast for New Century at the ABS East conference in Boca the week of October 12th

- The breakfast was attended by over 25 ABS investors
  - No questions were asked about article
- Also, New Century had over 40 one on ones with investors, many of them hosted by Morgan Stanley
  - Article was not focused on by any investor

Morgan Stanley priced MSAC 2004-NC8, a $1.2 Bn ABS transaction, on October 21st, two weeks after the Barron's article, at the tightest spreads of the year

- All loans in the transaction were originated by New Century (Chase and Countrywide serviced the transaction)
  - The transaction was the tightest pricing of any comparable home equity transaction in the market over the last few months
- Transaction was 2-3 x oversubscribed in every class
  - No investor raised any concern over New Century during the transaction

New Century

Section 3

Collateral Comparison

Collateral Summary

- Overall credit quality has continued to increase as evidenced by improvements in credit grades and FICO scores

MSAC NC Shelf Deal Collateral Trends: 2001 - 2004

	MSAC			
	2001-NC1	**2002-NC1**	**2003-NC3**	**2004-NC8**
Originator	New Century	New Century	New Century	New Century
Deal Size	$309,425,000	$582,159,000	$987,422,000	$1,198,490,000
Issue Date	5/24/2001	3/27/2002	5/29/2003	11/17/2004
CUT-OFF DATE COLLATERAL CHARACTERISTICS				
Principal Balance of Statistical Loan Group	$316,547,093	$592,528,589	$896,639,551	$1,198,490,375
Number of Loans	2,387	3,924	4,395	6,488
Fixed/Floating	19.94%/80.06%	21.05%/88.95%	28.49%/71.51%	28.17%/71.83%
Wtd Avg Coupon	9.734%	8.852%	7.841%	7.016%
Wtd Avg Margin	6.559%	6.661%	6.460%	5.554%
Wtd Avg Max Rate	16.663%	15.921%	14.769%	14.025%
Wtd Avg Orig Term (mths)	353	356	351	354
Wtd Avg Std Rem Term (mths)	352	354	349	350
% Owner Occupied	91.76%	94.00%	94.02%	93.87%
State Concentration	CA (43%)	CA (47%)	CA (44%)	CA: (42%)
(Top 3)	FL (7%)	MI (5%)	FL (6%)	NY: (7%)
	NY (6%)	FL (5%)	IL (4%)	FL: (7%)
1st/2nd Liens	100.00%/0.00%	100.00%/0.00%	97.69%/2.31%	98.27%/1.73%
% Cashout Refinance	65.07%	68.03%	65.36%	68.45%
% Purchase	18.30%	16.01%	18.21%	26.31%
% Rate Term Refinance	16.63%	15.96%	16.43%	5.24%
% Full Documentation	60.12%	52.24%	63.77%	52.71%
% Stated Documentation	31.84%	39.24%	30.47%	43.10%
% Limited Documentation	8.04%	8.52%	5.76%	4.19%
% Other	0.00%	0.00%	0.00%	0.00%
Wtd Avg FICO	582	591	595	618
% FICO below 600 (inc. N/A)	67.59%	58.95%	56.80%	38.49%
% FICO below 550 (inc. N/A)	31.60%	30.39%	28.79%	15.02%
% FICO below 500 (inc. N/A)	0.37%	0.43%	0.00%	0.00%
Wtd Avg Orig CLTV	77.23%	76.04%	78.65%	78.67%
% LTV > 80	36.47%	39.54%	40.60%	40.89%
% LTV > 90	0.00%	0.82%	5.11%	10.80%
%LTV > 100	0.00%	0.00%	0.00%	0.00%
Credit Grade				
%AA	-	-	-	67.54
%A+	48.06	54.08	51.77	12.04
%A-	25.54	21.71	24.83	9.09
%B	17.63	15.24	13.82	5.97
%C	4.73	4.74	2.94	4.13
%C-	1.70	0.93	0.84	0.27
%C-HS	1.30	0.54	0.33	-
%FICO	1.04	2.76	5.48	0.96

New Century

Collateral Comparison

Collateral Summary: Spread Trends

- Spreads on A through BBB- bonds have continued to tighten
- Spreads on A- through BBB- bonds for MSAC 2004-NC8 were the tightest of the year (transaction priced 2 weeks post-Barron's article)

MSAC NC Shelf Deal Spread Trends: 2004

	MSAC			
	2004-NC5	2004-NC6	2004-NC7	2004-NC8
Originator	New Century	New Century	New Century	New Century
Deal Size	$717,427,000	$1,173,453,000	$1,171,666,000	$1,198,490,000
Issue Date	6/30/2004	7/28/2004	8/25/2004	11/17/2004
Pricing Spreads				
AAA*	33.00	33.75	33.10	34.50
AA	60	60	62	64
A	120	125	115	110
A-	155	145	135	125
BBB+	200	190	188	175
BBB	225	200	198	185
BBB-	460	390	350	310

Spreads shown reflect a weighted spread of all Offered AAA bonds

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Section 4

Performance

Morgan Stanley

New Century

Performance

Historical Performance of Morgan Stanley Transactions

Cumulative Losses (2001-2003 MS NC Transactions)

Morgan Stanley Shelf Transactions

Historical Cumulative Losses By Seasoning

	2001				2002					
	NC1	NC2	NC3	NC4	NC1	NC2	NC3	NC4	NC5	NC6
Sep-04	1.88%	1.61%	1.30%	1.36%	0.60%	0.49%	0.47%	0.40%	0.36%	0.33%
Aug-04	1.81%	1.52%	1.25%	1.30%	0.57%	0.44%	0.41%	0.38%	0.33%	0.29%
Jul-04	1.78%	1.40%	1.15%	1.19%	0.53%	0.35%	0.40%	0.29%	0.28%	0.25%
Jun-04	1.72%	1.29%	1.10%	1.09%	0.47%	0.29%	0.36%	0.27%	0.23%	0.22%
May-04	1.67%	1.21%	1.00%	0.97%	0.45%	0.23%	0.28%	0.24%	0.20%	0.21%
Apr-04	1.58%	1.16%	0.95%	0.87%	0.39%	0.19%	0.22%	0.17%	0.17%	0.18%
Mar-04	1.47%	1.05%	0.88%	0.79%	0.29%	0.16%	0.18%	0.12%	0.14%	0.11%
Feb-04	1.39%	0.98%	0.76%	0.71%	0.27%	0.13%	0.16%	0.11%	0.13%	0.10%
Jan-04	1.33%	0.91%	0.71%	0.65%	0.24%	0.13%	0.15%	0.11%	0.09%	0.08%
Dec-03	1.25%	0.87%	0.64%	0.59%	0.21%	0.10%	0.12%	0.10%	0.09%	0.07%
Nov-03	1.71%	0.80%	0.59%	0.53%	0.17%	0.07%	0.11%	0.07%	0.05%	0.05%
Oct-03	1.03%	0.73%	0.51%	0.50%	0.11%	0.07%	0.07%	0.03%	0.02%	0.04%
Sep-03	1.00%	0.62%	0.42%	0.41%	0.05%	0.07%	0.06%	0.01%	0.01%	0.03%
Aug-03	0.83%	0.57%	0.36%	0.35%	0.04%	0.05%	0.02%	0.01%	0.01%	0.02%
Jul-03	0.80%	0.45%	0.29%	0.29%	0.02%	0.03%	0.01%	0.01%	0.00%	0.02%
Jun-03	0.67%	0.37%	0.20%	0.25%	0.02%	0.01%	0.01%	0.00%	0.00%	0.02%
May-03	0.63%	0.34%	0.14%	0.18%	0.02%	0.01%	0.00%	0.00%	0.00%	0.00%
Apr-03	0.57%	0.27%	0.12%	0.14%	0.02%	0.01%	0.00%	0.00%	0.00%	0.00%
Mar-03	0.56%	0.22%	0.07%	0.12%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%
Feb-03	0.47%	0.19%	0.05%	0.09%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%
Jan-03	0.40%	0.16%	0.03%	0.07%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%
Dec-02	0.36%	0.13%	0.03%	0.06%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Nov-02	0.32%	0.11%	0.01%	0.06%	0.00%	0.00%	0.00%	0.00%	0.00%	
Oct-02	0.32%	0.08%	0.00%	0.06%	0.00%	0.00%	0.00%	0.00%		
Sep-02	0.32%	0.06%	0.00%	0.03%	0.00%	0.00%	0.00%			
Aug-02	0.32%	0.04%	0.00%	0.01%	0.00%	0.00%				
Jul-02	0.27%	0.03%	0.00%	0.01%	0.00%	0.00%				
Jun-02	0.16%	0.01%	0.00%	0.00%	0.00%	0.00%				
May-02	0.08%	0.00%	0.00%	0.00%	0.00%	0.00%				
Apr-02	0.00%	0.00%	0.00%	0.00%	0.00%					
Mar-02	0.00%	0.00%	0.00%	0.00%						
Feb-02	0.00%	0.00%	0.00%	0.00%						
Jan-02	0.00%	0.00%	0.00%	0.00%						
Dec-01	0.00%	0.00%	0.00%							
Nov-01	0.00%	0.00%								
Oct-01	0.00%	0.00%								
Sep-01	0.00%	0.00%								
Aug-01	0.00%									
Jul-01	0.00%									
Jun-01	0.00%									
Deal Age	40	37	34	33	30	29	25	24	23	22
Deal Factor	0.160	0.175	0.183	0.220	0.240	0.247	0.329	0.347	0.380	0.430
Loss Severity	31.81	30.40	N/A	N/A	N/A	N/A	N/A	25.37	28.29	26.20
Original WA FICO	581	579	583	584	591	597	595	592	594	598
Original WA LTV (%)	77.18	76.20	78.23	78.21	78.04	77.63	78.31	79.00	79.38	78.69

	2003									
	NC1	NC2	NC3	NC4	NC5	NC6	NC7	NC9	NC8	NC10
Sep-04	0.27%	0.13%	0.09%	0.06%	0.10%	0.07%	0.10%	0.02%	0.04%	0.04%
Aug-04	0.23%	0.09%	0.08%	0.05%	0.11%	0.05%	0.10%	0.01%	0.03%	0.02%
Jul-04	0.20%	0.07%	0.06%	0.03%	0.11%	0.04%	0.08%	0.04%	0.02%	0.02%
Jun-04	0.13%	0.05%	0.03%	0.03%	0.10%	0.02%	0.08%	0.01%	0.00%	0.01%
May-04	0.12%	0.04%	0.02%	0.03%	0.09%	0.01%	0.07%	0.01%	0.00%	0.01%
Apr-04	0.08%	0.03%	0.02%	0.01%	0.06%	0.01%	0.02%	0.00%	0.00%	0.00%
Mar-04	0.06%	0.03%	0.01%	0.01%	0.05%	0.01%	0.00%	0.00%	0.00%	0.00%
Feb-04	0.05%	0.02%	0.01%	0.01%	0.01%	0.01%	0.00%	0.00%	0.00%	0.00%
Jan-04	0.03%	0.01%	0.00%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Dec-03	0.02%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Nov-03	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Oct-03	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
Sep-03	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Aug-03	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%			
Jul-03	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%				
Jun-03	0.00%	0.00%	0.00%	0.00%	0.00%					
May-03	0.00%	0.00%	0.00%	0.00%						
Apr-03	0.00%	0.00%	0.00%							
Mar-03	0.00%	0.00%								
Feb-03	0.00%									
Deal Age	20	19	18	17	16	15	14	13	12	11
Deal Factor	0.453	0.478	0.495	0.531	0.539	0.570	0.600	0.584	0.660	0.696
Loss Severity	25.35	22.65	18.10	25.16	16.42	19.14	33.48	16.16	6.45	36.39
Original WA FICO	78.76	79.11	78.65	79.26	79.41	79.75	79.22	79.89	80.18	80.15
Original WA LTV (%)	596	605	595	607	602	593	596	596	600	602

Source: Intex

Morgan Stanley

New Century

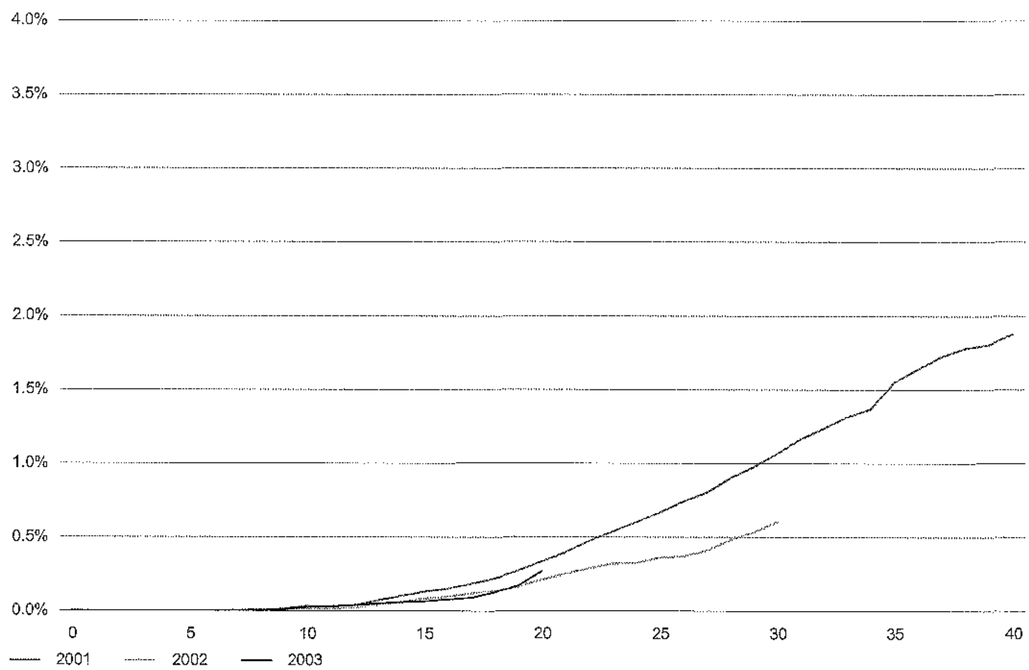
Performance

Morgan Stanley Shelf Performance

MSAC NC Transactions: 2001 vs. 2002 vs. 2003

- The Morgan Stanley transactions backed by New Century collateral are trending toward sub- 3% cumulative losses (projected losses for the life of the deal, current losses are much lower)
- The average loss severity of the transactions to date has been around 30%

Cumulative Losses



Source Intex

Section 5

MSA Level House Price Risk Evaluation

MSA Level House Price Risk Evaluation

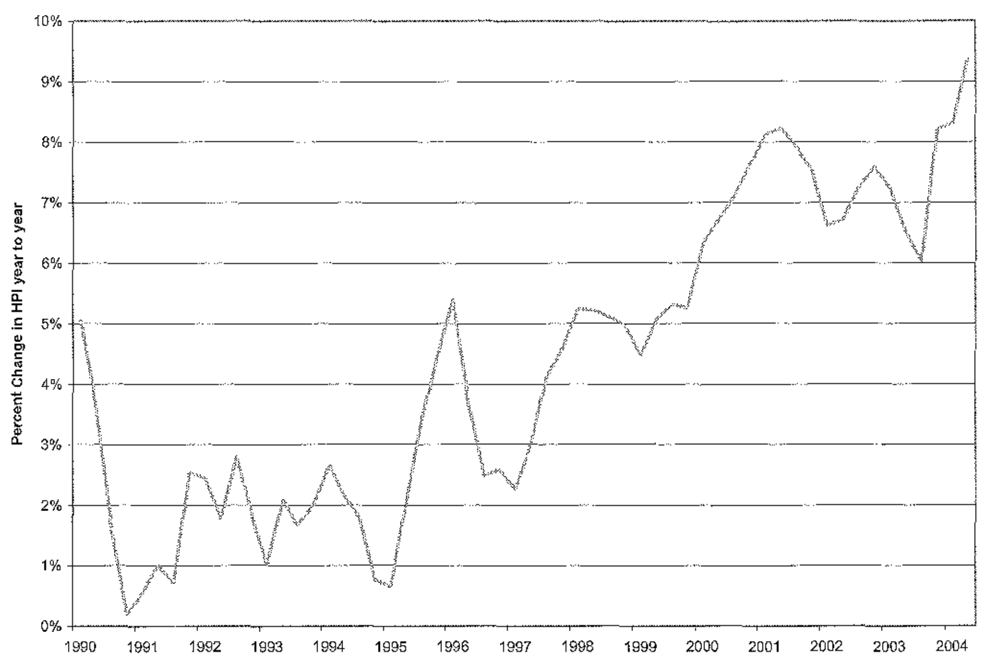
- Morgan Stanley's Fixed Income Research group, as well as Morgan Stanley's Mortgage Econometrics group, have published numerous housing price reports over the last year
- Conclusion by both groups is that there is no nationwide housing bubble in the making
  - Overall demand for housing remains very strong due to demographic pressures and rising home ownership rates by minorities and immigrants
  - Strong demand is indicated by a very low inventory-to-sales ratio (4 months of sales on market), which is below the long-term average
  - Despite rising house prices, general affordability remains good due to rising incomes and lower level of interest rates. Even a modest spike in interest rates of about 150 basis points would not cause a problem if it is the result of a strengthening economy
  - We do not think that CA is currently a high risk area. In particular, southern CA is actually the market with the least risk of falling house prices over the next two years. Southern CA has probably the best economic performance in the nation right now

New Century

MSA Level House Price Risk Evaluation

House Price Growth Remains Remarkably Strong

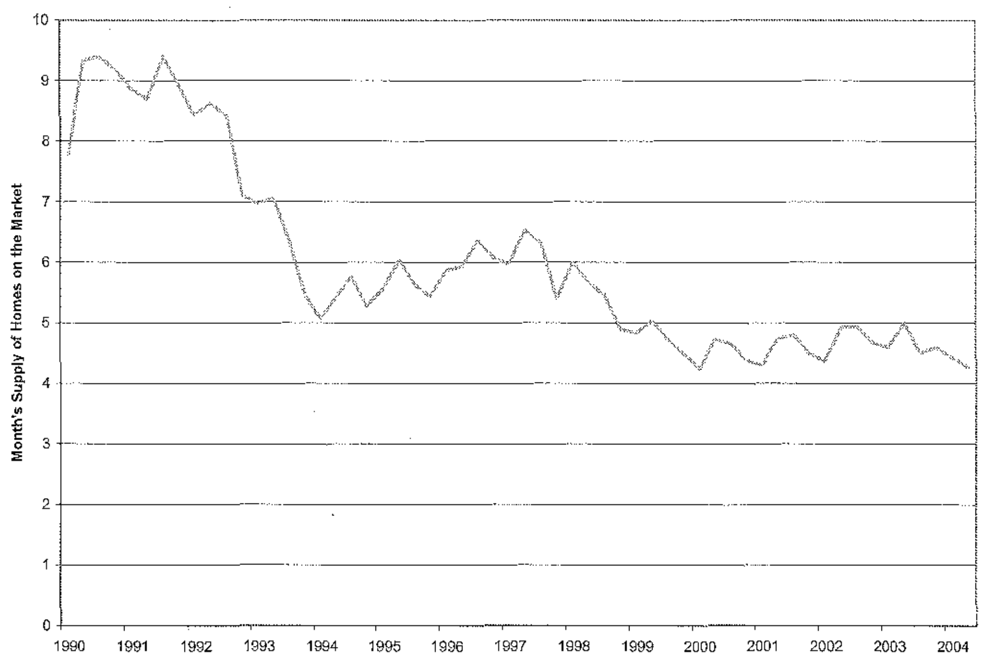
- Nationwide House price growth soars to highest levels since inflationary 1970s
- Strong current growth is good news for next year's outlook because housing markets – unlike equity markets – display strong inertia: a very good year is almost never followed by a very bad year



Source: OFHEO

Housing Supply is Tight by Historical Standards

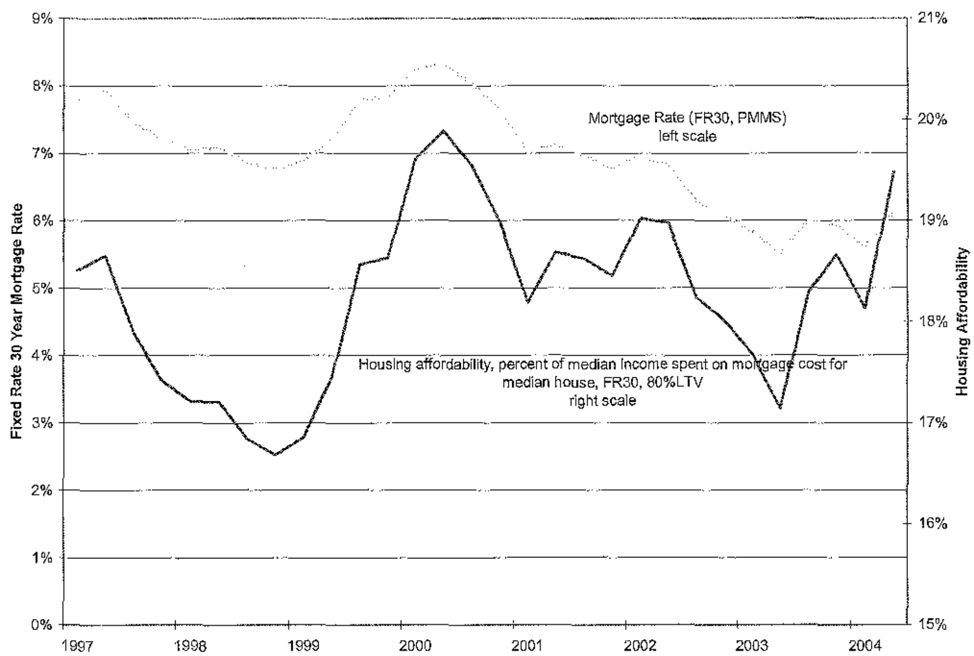
- Inventory-to-Sales ratio (measured by Month's Supply of Homes on Market) remains at historically low levels
- Lack of inventory is yet another indicator for continued strong housing demand, a situation that is unlikely to change in the near future



Source: National Association of Realtors

Strong House Price Growth is Worsening Affordability

- Continued strong house price growth has started to erode housing affordability over the past 18 months
- Currently, it takes 19.5% of the median family's income to make principal and interest payments on an 80 LTV mortgage on the median priced home
- Affordability remains good but is approaching the upper range of recently observed values
- Worsening affordability limits long term growth potential



Source: Freddie Mac Primary Mortgage Market Survey, OFHEO, National Association of Realtors

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MSA Level House Price Risk Evaluation

Probability of House Price Decline in the Top 50 MSAs

(page 1 of 2)

		House Prices			Labor Markets			Time on Market	
MSA	House Price Decline Index[1]	HP Growth 2003Q2 - 2004Q2[2]	HP Growth 2002Q2 - 2003Q2[2]	Acceleration[3]	Employment Growth 2003M07 - 2004M07[4]	Unemployment Rate 2004M07[5]	Current Unemployment Rate Minus Long Term Average[6]	Month's Supply of Homes on the Market 2004Q2[7]	Month's Supply of Homes on the Market 2003Q2[7]
Indianapolis, IN	138	2.42%	2.90%	-0.48%	-0.78%	4.60%	0.46%	7.1	1.7
Greensboro-Winston-Salem-High Point, NC	125	2.27%	3.33%	-1.06%	-0.22%	5.30%	0.41%	No Data	No Data
Fort Worth-Arlington, TX	121	2.28%	4.09%	-1.81%	0.53%	5.80%	0.84%	No Data	No Data
Detroit, MI	115	3.43%	3.02%	0.41%	-2.23%	8.20%	2.84%	No Data	No Data
San Antonio, TX	110	3.36%	5.28%	-1.93%	1.33%	5.30%	0.41%	8.1	8.2
Dallas, TX	109	2.54%	3.33%	-0.79%	0.61%	6.20%	0.96%	6.1	4.0
Atlanta, GA	106	3.53%	4.15%	-0.62%	0.82%	4.50%	-0.13%	8.3	No Data
Charlotte-Gastonia-Rock Hill, NC-SC	105	2.44%	3.45%	-1.01%	1.17%	6.00%	0.90%	No Data	No Data
Salt Lake City-Ogden, UT	97	2.44%	2.64%	-0.20%	1.51%	5.20%	-0.01%	No Data	No Data
Denver, CO	90	3.06%	2.52%	0.64%	0.76%	5.20%	0.81%	No Data	No Data
Houston, TX	79	3.52%	4.15%	-0.64%	1.15%	6.60%	0.97%	5.4	6.6
Cleveland-Lorain-Elyria, OH	79	4.03%	3.29%	0.73%	0.00%	6.30%	0.34%	No Data	No Data
Cincinnati, OH-KY-IN	70	4.12%	3.27%	0.85%	0.92%	5.00%	0.04%	No Data	1.4
Kansas City, MO-KS	67	4.60%	4.11%	0.46%	0.63%	5.70%	0.70%	No Data	5.4
Nashville, TN	61	3.87%	3.43%	0.43%	1.25%	3.40%	-0.83%	4.3	3.2
Pittsburgh, PA	60	5.43%	4.80%	0.63%	-0.05%	5.40%	-0.17%	No Data	No Data
San Jose, CA	51	5.96%	2.13%	3.84%	-1.13%	6.30%	1.17%	No Data	No Data
Buffalo-Niagara Falls, NY	49	6.01%	4.15%	1.87%	-0.04%	6.60%	0.13%	No Data	No Data
New Orleans, LA	40	7.35%	6.97%	1.38%	-0.33%	5.90%	-0.13%	No Data	No Data
Seattle-Bellevue-Everett, WA	30	7.03%	3.56%	3.47%	1.74%	5.60%	0.24%	No Data	No Data
Hartford, CT	28	9.33%	7.09%	2.24%	-1.40%	5.30%	0.96%	No Data	No Data
St. Louis, MO-IL	27	7.28%	4.23%	3.06%	2.48%	6.50%	1.04%	No Data	No Data
San Francisco, CA	27	8.32%	4.45%	3.87%	0.26%	5.00%	0.56%	No Data	No Data
Chicago, IL	25	7.92%	5.11%	2.81%	0.26%	6.20%	0.22%	3.9	No Data
Boston, MA-NH	23	8.48%	7.77%	0.71%	-0.21%	4.80%	0.63%	2.4	No Data

Notes

1. The house price decline index ranks MSAs by probability of house price decline over the next two years. The index is normalized such that an index value of 100 corresponds to a 10% probability of house price decline. An index value of 200 corresponds to a 20% probability of house price decline.
2. House prices growth represents the year-over-year change in the OFHEO House Price Index calculated as the difference in logs of the index value in the current quarter and four quarters earlier.
3. Acceleration is the difference in annual house price growth rates from one year to the next. When acceleration is positive, house prices are appreciating faster in the current year than one year earlier.
4. Employment growth represents the year-over-year change in the non-seasonally adjusted total non-farm employment in the MSA collected as part of the Bureau of Labor Statistics' Establishment Survey and is calculated as the difference in logs of the number employed in the current month and twelve months earlier.
5. Non-seasonally adjusted, monthly, MSA level unemployment rates as reported by the Bureau of Labor Statistics.
6. Current MSA level unemployment rate minus a four year average of the MSA level unemployment rate starting two years prior to the current period. Large positive values indicate that current employment is above the long term average.
7. These data are provided by the National Association of Realtors, and are not available for all MSAs.

New Century

MSA Level House Price Risk Evaluation

Probability of House Price Decline in the Top 50 MSAs

(page 2 of 2)

		House Prices			Labor Markets			Time on Market	
MSA	House Price Decline Index[1]	HP Growth 2003Q2 - 2004Q2[2]	HP Growth 2002Q2 - 2003Q2[2]	Acceleration[3]	Employment Growth 2003M07 - 2004M07[4]	Unemployment Rate 2004M07[5]	Current Unemployment Rate Minus Long Term Average[6]	Month's Supply of Homes on the Market 2004Q2[7]	Month's Supply of Homes on the Market 2003Q2[7]
Portland-Vancouver, OR-WA	22	7.38%	4.05%	3.33%	0.76%	6.60%	0.21%	2.6	3.8
Minneapolis-St. Paul, MN-WI	22	9.10%	6.42%	2.69%	1.01%	4.20%	0.19%	No Data	No Data
Milwaukee-Waukesha, WI	18	8.10%	4.19%	3.92%	1.48%	5.30%	0.02%	3.0	5.6
Orlando, FL	18	9.65%	6.99%	2.65%	2.05%	4.10%	-0.47%	No Data	No Data
Nassau-Suffolk, NY	16	11.52%	12.60%	-1.08%	1.11%	4.30%	-0.19%	No Data	5.0
Phoenix-Mesa, AZ	16	7.84%	4.62%	3.23%	2.59%	3.90%	-0.83%	2.2	3.6
New York, NY	16	11.10%	9.76%	1.34%	0.81%	7.00%	-0.19%	No Data	No Data
Oakland, CA	16	10.63%	6.58%	4.05%	0.57%	5.80%	0.81%	No Data	No Data
Newark, NJ	15	10.35%	8.24%	2.11%	0.78%	5.70%	0.12%	4.1	4.5
Bergen-Passaic, NJ	13	10.73%	8.16%	2.57%	0.80%	5.50%	-0.10%	3.9	No Data
Philadelphia, PA-NJ	13	12.34%	8.35%	3.99%	-0.76%	5.50%	0.00%	No Data	No Data
Tampa-St. Petersburg-Clearwater, FL	10	12.22%	7.82%	4.40%	1.30%	3.70%	-0.72%	No Data	No Data
Middlesex-Somerset-Hunterdon, NJ	9	11.06%	7.73%	3.33%	2.10%	4.50%	0.05%	2.8	5.5
Miami, FL	8	14.31%	13.15%	1.16%	1.29%	6.30%	-1.16%	No Data	No Data
Norfolk-Virginia Beach-Newport News, VA-NC	6	14.29%	7.40%	6.89%	1.26%	4.30%	-0.19%	No Data	No Data
Fort Lauderdale, FL	5	15.13%	12.06%	3.07%	2.05%	4.50%	-1.15%	No Data	No Data
Providence-Fall River-Warwick, RI-MA	4	15.87%	11.63%	4.24%	0.68%	6.10%	0.41%	5.0	5.3
Sacramento, CA	4	16.71%	11.50%	5.20%	0.13%	5.70%	0.29%	No Data	No Data
Baltimore, MD	3	14.50%	8.79%	5.71%	1.91%	5.00%	-0.58%	1.6	No Data
Washington, DC-MD-VA-WV	3	14.35%	8.87%	5.49%	2.08%	3.20%	-0.84%	1.2	1.8
San Diego, CA	2	18.42%	12.97%	5.44%	1.66%	4.20%	-0.26%	3.8	3.7
Los Angeles-Long Beach, CA	2	19.50%	11.77%	7.73%	0.54%	6.90%	-0.16%	No Data	No Data
Orange County, CA	2	19.56%	11.39%	8.17%	0.21%	3.70%	-0.41%	No Data	No Data
Riverside-San Bernardino, CA	1	22.09%	13.34%	8.76%	2.37%	6.40%	-0.03%	No Data	No Data
Las Vegas, NV-AZ	0	22.27%	7.20%	15.07%	4.59%	4.60%	-1.35%	1.7	No Data

Notes
1. The house price decline index ranks MSAs by probability of house price decline over the next two years. The index is normalized such that an index value of 100 corresponds to a 10% probability of house price decline. An index value of 200 corresponds to a 20% probability of house price decline.
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7. These data are provided by the National Association of Realtors, and are not available for all MSAs.

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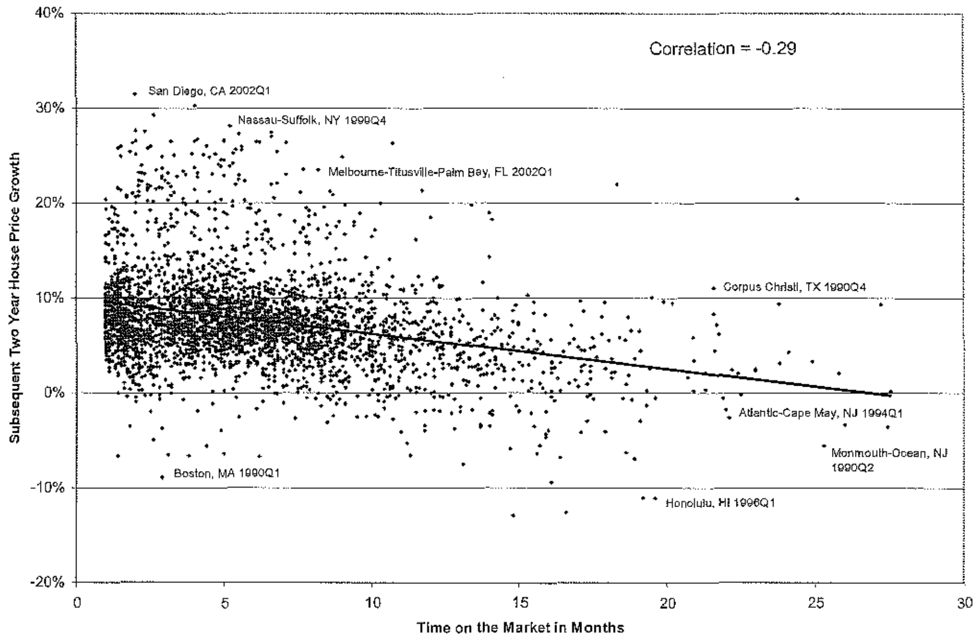
MSA Level House Price Risk Evaluation

Time on the Market and Subsequent House Price Growth

- Newly available quarterly, MSA level time on the market data show a strong negative correlation with future house price growth
- MSAs with longer average time on the market have slower future house price growth



Source: OFHEO and National Association of Realtors

Metropolitan Area Risk Assessment

- The Indianapolis, Greensboro-Winston-Salem-High Point, and Fort Worth-Arlington Metropolitan Statistical Areas (MSA) top our list as the most likely to experience a house price downturn over the next two years
- Indianapolis continues to lose jobs, and the unemployment rate is nearly 0.5% above the long term average. The region is heavily depended on auto manufacturing which has weakened. Time on the market is increasing, indicating weakening housing demand
- House price growth in Greensboro has slowed from last year and the MSA is losing jobs. This MSA is heavily dependent on the textile, tobacco and furniture industries with declining employment
- House prices in Fort Worth-Arlington grew nearly 2% slower this year compared to last, and while the labor market has shown some signs of recovery, the unemployment rate is nearly a full percentage point above the long term average
- Las Vegas and Southern California are the least likely to experience a house price downturn over the next two years. House prices are growing at double digit rates in Las Vegas, Riverside, Orange County, Los Angeles and San Diego over last year, and these MSAs have strong employment growth with unemployment rates below their long term average. Very low time on the market indicates continued strong housing demand
- New York and Boston are in the middle of our ranking based on strong house price growth in recent years. New York experienced stronger labor markets and house price growth than Boston, but neither MSA is growing as fast as Southern California

Overview of House Price Model

- The model estimates the probability that MSA wide house prices will be lower in two years than they are currently
- We use a simple but highly predictive statistical model using MSA level OFEHO house price indices, employment, unemployment rates, and market turnover to assess the MSA risk level
- Factors that increase house price risk:
  - Previous years' house price growth is low (growth rate of current house prices over four quarters earlier)
  - Annual house price growth is declining over the past two years (change in growth rate)
  - Employment growth is low (growth rate of employment over four quarters earlier)
  - Unemployment rate is high relative to the long run average (change of current unemployment rate from mean over four year period ending two years ago)
  - Time on the market is high (this is a new model component, time on the market is measured by the average number of months on market for houses that sold in the MSA in the current quarter)
- In addition, the Economic Analysis team assesses the general macroeconomic risk level in housing markets considering incomes, affordability, rents, and other factors and from time to time makes risk level adjustments that are uniformly applied to all markets

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Section 6

Warehouse Due Diligence Process

Warehouse Due Diligence Process

Operational, Servicing, Compliance and Credit Due Diligence Review

Text Subtitle

- The Warehouse Group will conduct an on-site Corporate Due Diligence Review of each client. The Corporate Due Diligence Review entails:
  - An Operational Review
  - A Servicing Review
  - A Compliance Review
  - A Credit Review
- These Due Diligence reviews focuses on loan sourcing, loan production, underwriting, appraisal review, pre-funding and post-funding quality control, loan level compliance testing, loan set-up, cash controls, loan delinquencies, loss mitigation, technology, customer service, investor reporting, staff experience, staff training, and company financials
- Prior to the Operational Due Diligence Review, the business unit sends the client a comprehensive Review Agenda to better guide the client through the topics and questions that will be discussed at the review
- All Corporate Due Diligence Reviews take place annually as well as Reviews for potential new clients. Additional reviews may occur as necessary on a case-by-case basis

Loan Level File Due Diligence Review

- On a quarterly basis Morgan Stanley will randomly select a 5% sample of loans currently on the client's warehouse line for a full credit and compliance review. In addition to the 5% random sample, depending on trends or current concerns, an adverse sample may also be selected for review on a case-by-case basis. Adverse samples will generally focus on loans with high LTVs, low FICOs, high risk geographic areas, and locals with compliance legislation. If past reviews show trends of non-compliant loans from certain brokers or company subsidiaries, the adverse sample will focus on loans from that particular source
- Morgan Stanley coordinates with a third-party vendor, Clayton, who will complete the re-underwrite of the loan files to the Client's underwriting guidelines. Clayton will conduct a full credit and compliance review on the loan sample. The scope of the assignment will include a review of the legal and compliance documents, analysis of the collateral and appraisal, and the collection and analysis of individual borrower data including recalculation of borrower's income, debts, and ratios. The objective of the review is to (a) confirm that the loans were originated in conformity with the client's published underwriting guidelines including compliance with the written exception approval process, (b) determine the integrity of the data in the data file, and (c) determine conformity with Federal and State Regulations including RESPA, TILA, and Anti-Predatory and High Cost lending laws and regulations
- Any loans which do not comply with applicable laws, do not meet the Client's underwriting guidelines, or are not deemed acceptable risk by Clayton will be reported to the Warehouse Due Diligence Manager who will re-review the loan asset level reports provided by the third-party vendor. The Warehouse Due Diligence Manager will then prepare a memo outlining any remaining loan issues to the Warehouse Business Unit. The Warehouse Business Unit in coordination with the Warehouse Due Diligence Manager will then communicate all failing loans to the Client and the loans that are not cured will be subject to possible removal from the warehouse line

Warehouse Due Diligence Process

Loan Level Valuation Review

- Quarterly, all loans in the due diligence sample will also undergo an independent valuation review by evaluating the loans with Hansen Pros. Hansen Quality is a third-party vendor that offers a product, the Hansen Pro, which places a risk score of "0-4" ("0" is the most risky) on the loan's appraisal at origination. In order to have access to the loan files, Hansen will be on-site conducting their appraisal review simultaneously with the file due diligence review
- After Hansen sends the Pro results in an Excel data tape to the Warehouse Valuation Manager, Hansen will automatically order BPOs (Broker Price Opinions) on all pros with a risk of "0" or "1." The Warehouse Valuation Manager will also place BPO orders on a sample of between 30-40% of the pros with a risk score of "2" – this sample will generally focus on those properties based on various risk characteristics including: high CLTV, rural properties, high risk areas, and low FICO. In addition, the Warehouse Due Diligence Manager may request additional BPOs to be ordered on any loan where addition information may be needed to confirm the value is supported on the loan. While on-site, Hansen will photocopy the appraisals and provide the Morgan Stanley Valuation Reviewer with both the original appraisal and the BPO. Hansen then sends the BPO results via data tape to the Morgan Stanley Valuation Reviewer so s/he can analyze the results identifying all loans needing additional review including loans out of 15% variance when comparing the BPO value to the appraisal value, loans with a high LTV/CLTV (over 100%) calculated with the original balance versus the BPO value as well as properties in high risk areas. For loans requiring a more in-depth review, reconciliation between the BPO and the appraisal is completed by the Morgan Stanley Valuation Reviewer who will then assign the property with a Morgan Stanley value, calculate the Morgan Stanley LTV, calculate the Morgan Stanley Variance, and include Morgan Stanley Comments. A final valuation spreadsheet on any loans failing this elevated value review is then delivered to the Warehouse Business Unit, so the loans can be discussed with the Client and such loans will be subject to possible removal from the warehouse line

Subprime Warehouse Balances and Commitments

Subprime October Balances and Commitments

Subprime	Funded Balance as of 10/22/04 (in $mm)	Committed Balances (in $mm)
Aames Capital Corp	304	350
Accredited Home Lenders	451	650
Ameriquest	980	3000
Household	750	750
IndyMac	18	50
Long Beach	0	500
New Century	1204	2000
Novastar Financial	11	300
Sub-Total	**3,718**	**7,600**

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Warehouse Due Diligence Process

Subprime Warehouse Facilities

Subprime Warehouse Facilities

- Operational, Servicing, Compliance, Credit Due Diligence is annually conducted for each Warehouse Facility
- File and Valuation Due Diligence is conducted quarterly on all Subprime Warehouse Lines
- Product Concentration Limits are set-up for each Subprime Warehouse Facility
- Aging constraints are placed on all Subprime Warehouse Facility usually 180 days maximum
- All Subprime Warehouse lines are Mark to Market Daily
- Morgan Stanley can issue a margin call to the Borrower if the aggregate principal amount of the Facility exceeds the Borrowing Base
- All collateral securing Warehouse Facilities is held at a third party custodian for the benefit of Morgan Stanley, with the exception of Household (AA rated)

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Section 7

Stress Scenario Analysis

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Stress Scenario Analysis

Estimated Value at Risk Due to Idiosyncratic Default Of Subprime Warehouse Counterparty

- To adjust for the estimated impact on the capital structure we assume that the rating agencies expected losses for the pool increase from B to BB, and that the entire capital structure shifts down a rating level

	Original Loss Coverage %	Stress Loss Coverage %
BBB	8.50	11.40
BBB-	7.40	10.30
BB+	6.30	9.40
BB	**5.25**	8.50
BB-	4.40	7.40
B+	3.50	6.30
B	**2.75**	**5.25**

	Base Bond Size %	Stress Bond Size %
AAA	79.05	77.50
AA	9.95	6.60
A	4.75	6.50
BBB	2.15	2.40
BBB-	1.10	1.00
O/C Initial Target	3.00	6.00

Base Structure

Rating	Margin	DM	Structure	Proceeds
AAA	35	35	79.05	79.05
AA	60	60	9.95	89.00
A	110	110	4.75	93.75
BBB	185	185	2.15	95.90
BBB-	310	310	1.10	97.00
BBB- NIM	4.5% coupon		4.51	101.51
Expenses			-0.65	100.86
BBB- Retained				100.86
Post-NIM	25% yield		1.32	102.18

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Stress Scenario Analysis

Estimated Value at Risk Due to Idiosyncratic Default of Subprime Warehouse Counterparty (Cont.)

Stress Capital Structure with BBB- Sold
3.50% Cum Loss, 25% yield on Post-NIM

Rating	Margin	DM	Structure	Proceeds
AAA	35	35	77.50	77.50
AA	60	60	6.60	84.10
A	110	110	6.50	90.60
BBB	185	185	2.40	93.00
BBB-	310	310	1.00	94.00
BBB- NIM	4.5% coupon		4.64	98.64
Expenses			-0.65	97.99
BBB- Retained				97.99
Post-NIM	25% yield		2.65	100.64

Stress Capital Structure with BBB- Retained
3.50% Cum Loss, 25% yield on Post-NIM

Rating	Margin	DM	Structure	Proceeds
AAA	35	35	77.50	77.50
AA	60	60	6.60	84.10
A	110	110	6.50	90.60
BBB	185	185	2.40	93.00
BBB-	0	0	0.00	93.00
BBB- NIM	4.5% coupon		4.64	97.64
Expenses			-0.65	96.99
BBB- Retained	310	310	1.00	97.99
Post-NIM	25% yield		2.65	100.64

Stress Capital Structure and Stress Spreads with BBB- Retained
3.50% Cum Loss, 25% yield on Post-NIM

Rating	Margin	DM	Structure	Proceeds
AAA	45	45	77.50	77.31
AA	85	85	6.60	83.82
A	135	135	6.50	90.24
BBB	285	285	2.40	92.53
BBB-	0	0	0.00	92.53
BBB- NIM	5.5% coupon		4.61	97.14
Expenses			-0.65	96.49
BBB- Retained	310	600	1.00	97.37
Post-NIM	25% yield		2.65	100.02

Stress Capital Structure and Stress Spreads with BBB- Retained
6.30% Cum Loss, 25% yield on Post-NIM

Rating	Margin	DM	Structure	Proceeds
AAA	35	45	77.50	77.31
AA	60	85	6.60	83.82
A	110	135	6.50	90.24
BBB	185	285	2.40	92.53
BBB-	0	0	0.00	92.53
BBB- NIM	7.5% coupon		4.34	96.87
Expenses			-0.65	96.22
BBB- Retained	310	600	1.00	97.10
Post-NIM	25% yield		1.62	98.72

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Stress Scenario Analysis

Rating Migration Analysis

Capital Structure Change During Counterparty Default

- Capital structure shifts are more dependent on collateral performance, not a company's financial condition
  - It took the rating agencies 2.5 years to downgrade Conti transactions after Conti announced it could no longer make bank loan payments

Conti Home Equity 1998-1 to 1999-3

Deal	Issue Date	S&P Rating	First Downgrade Rating	First Downgrade Date	Duration of Original Rating (yrs)	Duration of Original Rating After Conti Distress (03/00) (yrs)
1998-1	Mar-1998	BBB-	B	Oct-2000	2.63	0.55
1998-2	Jun-1998	BBB-	BB	Oct-2000	2.42	0.60
1998-3	Sep-1998	BBB-	BB	Sep-2003	5.10	3.54
1998-4[1]	Dec-1998	BBB-	B	Oct-2003	4.86	3.60
1999-1	Mar-1999	BBB-	B	Dec-2002	3.80	2.75
1999-2	Mar-1999	BBB-	BB	Dec-2002	3.74	2.75
1999-3	Jun-1999	BBB-	BB	Sep-2003	4.27	3.51

Average Time to First Downgrade: 3.83 years
Average Time to First Downgrade after Conti Announces Trouble: 2.47 years

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Notes
1. 1998-4: Fitch data used due to inaccessibility to S&P data

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Stress Scenario Analysis

Conseco Case Study

Capital Structure Change During Conseco Financial Turmoil

- The base case stress of shocking loss coverage from B → BB immediately is much more conservative than the change witnessed during the financial distress / imminent bankruptcy of Conseco

Changes of Capital Structure Over Time

Deal	Date Issued	AAA	AA	A	BBB	BBB-
CNFHE 2001-C	Aug-2001	NA	NA	NA	NA	NA
CNFHE 2001-D	Oct-2001	0.00	0.50	1.00	0.25	NA
CNFHE 2002-A	Jan-2002	0.00	0.00	0.00	0.00	NA
CNFHE 2002-B	Apr-2002	2.75	2.75	1.50	1.25	NA
CNFHE 2002-C	Jul-2002	0.25	0.00	0.00	-0.25	NA
Average	12 months	0.75	0.81	0.63	0.31	NA
B → BB Stress		**4.25**	**3.95**	**3.45**	**2.95**	**2.70**
B → BBB- Stress		**5.50**	**5.40**	**5.40**	**5.40**	**4.90**

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Stress Scenario Analysis

MH Case Study

Capital Structure Change During Dislocation of the MH Industry

- **The base case stress of shocking loss coverage from B → BB immediately is much more conservative than the extreme change witnessed during the dislocation in the manufactured housing industry**

Changes of Capital Structure Over Time						
Deal	Date Issued	AAA	AA	A	BBB	BBB-
BAMH 1996-1	Jun-1996	NA	NA	NA	NA	NA
BAMH 1997-1	Jul-1997	-0.75	0.00	NA	-0.50	NA
BAMH 1997-2	Nov-1997	0.50	9.75	NA	0.25	NA
BAMH 1998-1	Mar-1998	1.00	1.75	NA	2.25	NA
BAMH 1998-2	Jun-1998	-1.00	-1.00	NA	-1.00	NA
Average	23 months	-0.06	2.63	NA	0.25	NA
B → BB Stress		**4.25**	**3.95**	**3.45**	**2.95**	**2.70**
B → BBB- Stress		**5.50**	**5.40**	**5.40**	**5.40**	**4.90**

Appendix A

MSAC Due Diligence Overview

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MSAC Due Diligence Overview

Appraisal Review Process

- Morgan Stanley performs a 100% appraisal review using the Hansen Pro product

- Morgan Stanley's collateral value due diligence typically consists of the following:
  - Morgan Stanley currently uses the Hansen appraisal review process, which is a multi-step screen that is designed to help identify inflated valuations and instances of appraisal fraud
- The appraisal review generally includes a screen for some or all of the following risk factors:
  - Fair or poor property condition along with qualitative comments on deferred maintenance issues, if any,
  - Negative external influences (i.e., adjacent to highway or railroad),
  - Health or safety issues apparent (properties not in compliance with building codes),
  - Comparable sales outside of subject property's immediate area (across neighborhood boundaries or distant from subject property),
  - Comparable properties unlike subject (i.e., square footage, bed/bath count, design and appeal, construction material, lot size, amenities, etc.)
  - Across the board adjustments for attributes present in comparable properties but not the subject property (i.e., attached garage, finished basement or swimming pool)
  - Wide adjusted sales price range,
  - No multiple listing service ("MLS") data source utilized in appraisal analysis,
  - Previous sales information for the subject property,
  - Flag for urban property, row house, rural property and manufactured home along with qualitative comments about any unique property features
  - Indication of property zoning if other than residential (i.e., commercial or agricultural)

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MSAC Due Diligence Overview

Appraisal Review Process (cont'd)

- **After analyzing the Hansen PRO scores, Morgan Stanley uses BPOs for approximately 25% of the portfolio including:**
  - **100% of the high risk appraisals**
  - **Selected moderate risk appraisals**

- Morgan Stanley will analyze the initial valuation results and order broker BPO's (Broker Price Opinion) on the loans that we feel are high risk
  - BPO's provide a recent color photograph of the subject property, recent comparable sales and listing data within the subject's area along with a description of the neighborhood
  - BPO's reveal incidences of deferred maintenance ignored by the original appraisal, provide additional comparable sales data and local market conditions, typically including: any incidence of boarded up or abandoned houses; high incidence of crime; or REO sales in area
  - Morgan Stanley can exclude loans that do not meet certain requirements

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MSAC Due Diligence Overview

Credit Review

- **Morgan Stanley will perform a credit and compliance review on approximately 25-35% of each portfolio it purchases**

- Currently, Morgan Stanley typically performs a credit review on approximately 25–35% of every portfolio purchased. The Clayton Group ("Clayton"), a third party due diligence provider, facilitates Morgan Stanley's underwriting review
- The Clayton reviews performed to date have included a verification of information including: debt to income ratios, borrower and co-borrower FICO, documentation type, loan purpose, mortgage and consumer credit history, amount of cash out and amount of cash to borrower, if any
- Clayton also gathers employment history data including type of employment, duration of current employment. Clayton reviews income documentation and assesses verification of current employment. The review also measures the degree of payment shock associated with the new loan
- Clayton reviews the loan's underwriting against the seller's guidelines. Clayton details any deviation from Morgan Stanley approved parameters and notes any significant compensating factors
- Clayton details its loan level findings in an individual asset summary.
- Morgan Stanley discusses the results of its underwriting due diligence with the Seller and certain loans may be excluded from purchase
- Loans selected for review may include:
  - Low FICO scores,
  - Low credit grades
  - Poor prior mortgage payment histories
  - High debt to income ratios
  - High LTV

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MSAC Due Diligence Overview

Compliance Review

- **Morgan Stanley's review of sub-prime compliance policies and procedures are designed to assist us in identifying predatory lending practices**

- Morgan Stanley conducts an in-depth review of originator's policies and procedures related to compliance with federal, state and municipal high cost lending laws. This is done in an on-site interview with senior management and legal counsel
- We have currently retained outside counsel to interpret high cost legislation, inform us of changes or proposed changes in laws, and assist us in formulating policies
- Morgan Stanley requires sellers to make representations and warranties precluding Section 32 loans, single premium credit life insurance policies, and mandating compliance with all applicable laws.
- Morgan Stanley utilizes third party due diligence providers to test a sample of loans for: (i) conformance with all applicable laws, (ii) affordability, and (iii) evidence that the loan benefits the borrower.